

Message Text

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43

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-03 PRS-01 USIA-15 ABF-01 FSE-00

DRC-01 /164 W

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 8258

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL ZURICH UNN

UNCLAS BERN 4139

E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: SWISS RELAX SOME CAPITAL CONTROLS

SUMMARY. SWITZERLAND HAS RELAXED TWO MEASURES RESTRICTING INFLOWS OF CAPITAL IN LIGHT OF CURRENT CALM IN EXCHANGE MARKETS. EXPECTATION IS FOR CONTINUATION OVER MEDIUM TERM OF CURRENT SWISS FRANC-DOLLAR RATE. END SUMMARY.

1. EFFECTIVE OCTOBER 1 SWISS NATIONAL BANK (SNB) SUSPENDED TWO PERCENT PER QUARTER NEGATIVE INTEREST CHARGE ON NON-RESIDENT SWISS FRANC ACCOUNTS. CHARGE HAD BEEN APPLIED SINCE JULY 1972 INITIALLY AGAINST MONTHLY AVERAGE BALANCE AND SINCE MARCH 1, 1973, AGAINST HIGHEST DAILY BALANCE IN ACCOUNT DURING MONTH. (BERN UNCLASSIFIED

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803, MARCH 1, 1973 AND A-299, JULY 14, 1972.) SNB WILL

CONTINUE TO HAVE FULL AUTHORITY TO REINSTITUTE CHARGE AT WHATEVER RATE IT CONSIDERS APPROPRIATE IF IT FEELS SITUATION WARRANTS.

2. BANK HAS ALSO SUSPENDED REQUIREMENT EFFECTIVE SINCE JANUARY 1973 THAT COMMERCIAL BANKS BALANCE THEIR NET FOREIGN EXCHANGE POSITION DAILY.

3. SNB GENERAL DIRECTOR LEUTWILER TOLD PRESS THAT RELAXATION OF ABOVE TWO CAPITAL CONTROLS TAKEN AT THIS TIME BECAUSE EXCHANGE MARKETS HAD CALMED. HE FIRMLY DENIED, HOWEVER, THAT ANY CONSIDERATION WAS BEING GIVEN TO RELAXING OTHER CONTROLS AGAINST CAPITAL INFLOWS, (FOR EXAMPLE PROHIBITION AGAINST FOREIGN PURCHASE OF SWISS REAL PROPERTY AND SECURITIES) WHICH WERE TAKEN AS MUCH FOR DOMESTIC POLICY AS FOR EXTERNAL REASONS.

4. DECISION TO SUSPEND NEGATIVE INTEREST CHARGE HAD BEEN EXPECTED FOR SEVERAL WEEKS BUT APPARENTLY BANK AUTHORITIES WISHED TO MAKE SURE THAT IMF NAIROBI MEETING DID NOT RESULT IN STATEMENTS OR ACTIONS WHICH WOULD CAUSE DISTURBANCES ON EXCHANGE MARKETS. ANOTHER REASON FOR SWISS ACTION AT THIS TIME WAS FELT NEED TO COUNTERACT DM APPRECIATION AGAINST SWISS FRANC OVER SUMMER MONTHS. THIS HAD FUELED PRICE PRESSURES THROUGH INCREASED COST OF GERMAN IMPORTS INTO SWITZERLAND, WHILE STIMULATING SWISS EXPORTS AT A TIME WHEN ECONOMY ALREADY OPERATING AT NEAR FULL CAPACITY.

5. IN TWO DAYS FOLLOWING SNB ACTION DOLLAR HAS CONTINUED TO FLOAT AROUND SF 3.02. ON OCTOBER 2 SPOT DOLLAR OPENED LOWER AND FORWARD DISCOUNTS WIDENED, PROBABLY IN ANTICIPATION OF SHIFT FROM DOLLARS INTO SWISS FRANCS. VOLUME OF TRADING WAS NORMAL, HOWEVER, AND BY END OF DAY DOLLAR WAS BACK UP TO SF 3.0230. ON OCTOBER 3 DISCOUNTS NARROWED CONSIDERABLY AND SPOT RATE HELD FAIRLY STEADY IN SMALL TURNOVER.

6. OVER MEDIUM TERM, MOST BANKING OFFICIALS WITH WHOM EMBASSY AND CONGEN ZURICH IN RECENT CONTACT EXPECT UNCLASSIFIED

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SWISS FRANC-DOLLAR RELATIONSHIP TO BE FAIRLY STEADY IN 3:1 RANGE. SOME, HOWEVER, EXPECT DOLLAR TO INCREASE IN VALUE OVER NEXT SIX MONTHS, WHILE OTHERS, SUCH AS NICHOLAS KRUL OF LOMBARD ODIER, EXPRESS CONCERN THAT DEMAND CONDITIONS IN INDUSTRIAL COUNTRIES MAY WEAKEN SUFFICIENTLY TO AFFECT PROSPECTS OF US ATTAINING EARLY SURPLUS IN TRADE AND BALANCE OF PAYMENTS.
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